

FINANCIAL IMPACT OF COVID-19

Head of Service: Lee Duffy, Chief Finance Officer

Wards affected: (All Wards);

Urgent Decision?(yes/no)

If yes, reason urgent decision required:

Appendices (attached):

Summary

This report sets-out the financial impact of Covid-19 on the Council in the first quarter of 2020/21, and proposes funding sources to mitigate the impact.

Recommendation (s)

That the Committee

- (1) Notes the projected £2.5m deficit caused by Covid-19 in the first quarter of 2020/21;**
- (2) Agrees that the recommended funding, as set-out in paragraph 6.8, be deployed to address the deficit;**
- (3) Agrees that should the Government permit the capitalisation of Covid-19 related losses, then officers should examine this option for EEBC;**
- (4) Supports the continued lobbying of Central Government for further financial support;**
- (5) Notes that a further financial update will be brought back to this Committee in Quarter 2.**

1 Reason for Recommendation

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- 1.1 This report sets out the impact of COVID-19 on the Council's finances for the first quarter of 2020/21 and proposes how these losses can be financed for the period. Agreeing the recommendations will enable the Council to mitigate the adverse financial impact of Covid-19 in the short term.

2 Background

- 2.1 The Council approved its budget for 2020/21 and a new four year MTFS in February 2020. At that time, the Council was unaware of the impact that COVID-19 would have on its services and finances.
- 2.2 Since the outbreak, the Council has suspended a number of non-priority services and scaled back on a number of other services.

3 Impact on Council Finances for Quarter 1 of 2020/21

- 3.1 As a result of the government imposed restrictions and changes made to services, the Council has experienced significant reductions in commercial income and increases in expenditure to manage the crisis.
- 3.2 Commercial income for the purpose of this report is defined as revenues generated from parking, the venues (including the Playhouse, Ewell Court House, Bourne Hall, Community & Wellbeing Centre and Rainbow Leisure Centre), property rents and other income from services delivered directly to the public.
- 3.3 The estimated cost of dealing with COVID-19 for the first quarter of 2020/21 is expected to be £2,496,000 as shown in the following Table 1:

Table 1 - Council Losses due to Covid-19	April 2020	May 2020	June 2020	Total Quarter 1
	£'000	£'000	£'000	£'000
A. Direct COVID-19 expenditure	91	40	40	171
B. Homelessness	87	70	70	227
C. Losses on fees & charges	568	569	569	1,706
D. Losses on commercial property income	296	48	48	392
Total	1,042	727	727	2,496

A. Direct COVID-19 Expenditure

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- 3.4 The Council has had to incur additional expenditure on personal protective equipment (PPE) for frontline staff dealing with the public, the cost of groceries to provide food packages to vulnerable residents within the Borough and the purchase of additional IT equipment to facilitate the running of Council services remotely to assist key staff in working from home.

B. Homelessness

- 3.5 The Council is currently accommodating 19 additional households in temporary accommodation as a result of Covid-19, and has had to block-book additional accommodation to secure additional capacity to deal with potential surges in demand. The additional costs of managing homelessness in quarter 1 are projected at £227,000.

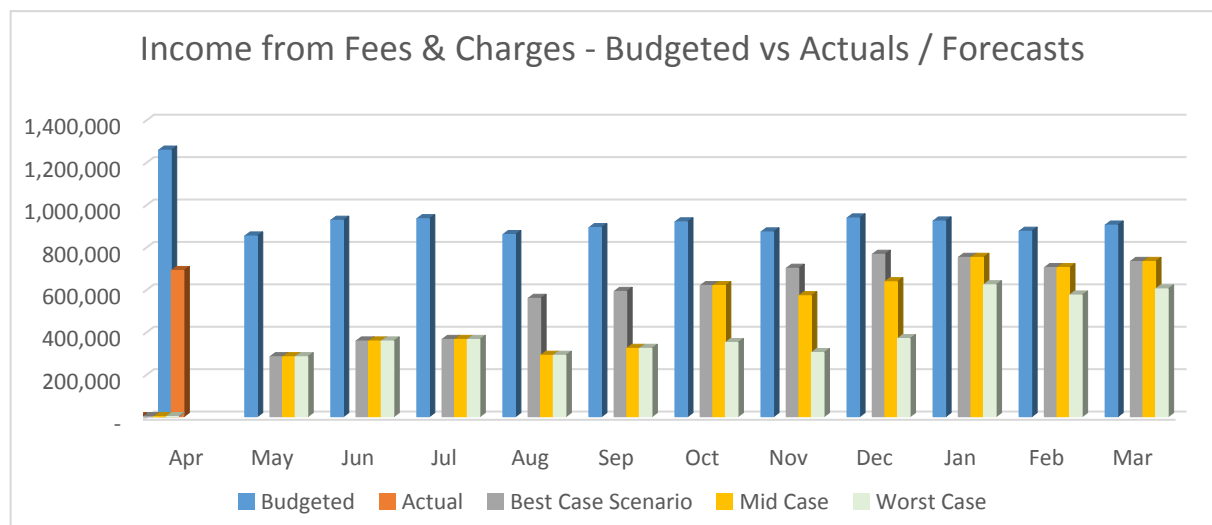
C. Losses of Income from Fees & Charges

- 3.6 Income from services has been severely hit during the outbreak. With budgeted income from fees and charges of around £900,000 per month (£11m per annum), this area represents the greatest financial risk for the Council, both in the short and long term. With the implementation of measures to deal with COVID-19, the Council has seen its income from fees & charges drop to below £300,000 per month.
- 3.7 The following service areas are most affected by the crisis in terms of monthly losses.
- 3.8 Car parks - £350k loss per month. Parking charges were suspended from 2nd April except for at the Town Hall, Hope Lodge and at Bourne Hall. Reinstating the charges will increase income for the Council but can be expected to be below pre-COVID-19 for a significantly period of time if not permanently.
- 3.9 Refuse - £30k loss per month (mainly trade waste). Once businesses recommence trading it is anticipated for this source income to return. A risk is a number of traders may cease business due to the crisis and this will impact on the long term income for the Council from this service.
- 3.10 Venues - £80k loss per month. It is expected the impact of COVID-19 on these services will take a significant period of time to recover. Venues will need to demonstrate it is safe to use their facilities and the public will need to have confidence in doing so; this is expected to be a gradual process.
- 3.11 Rainbow Leisure Centre - £30k loss per month. The Council is not currently receiving the monthly management fee from our leisure services provider at the Rainbow Centre. There is a possibility that further financial support may be required to enable the supplier to continue to operate post COVID-19 – should this be necessary, this will be reported to members at the appropriate time.

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- 3.12 The following chart shows the Council's budgeted income from fees and charges, compared to actual and forecast amounts collected each month, to illustrate the potential shortfall:



D. Losses on Commercial Property Income

- 3.13 The Council had budgeted to receive £1.5m income from commercial in the first quarter of 2020/21.
- 3.14 At the start of the crisis the Council agreed to allow tenants who requested and demonstrated their need for financial assistance to defer making their quarterly payments to help alleviate cashflow problems, but with the expectation that the amount due will be paid within the next 12 months.
- 3.15 To date, the Council has received £0.5m of the rent due for the first quarter, with £1m rent not collected. It is hoped that the £1m outstanding rents will be recovered within the next 12 months, however, it is prudent to highlight the risk of default and how any losses could be mitigated if they materialise. For the purpose of forecasting only, it is anticipated nearly £400k of the outstanding first quarter rents will not be paid.

Collection Fund – Business Rates

- 3.16 For 2020/21, the Council was accepted into a Surrey pool of local authorities with the potential benefit of retaining a greater share of business rates income, which for this Council was expected to generate a gain of nearly £170k.

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- 3.17 The budget for 2020/21 did not include any anticipated benefit from the pool and budgeted income from business rates was set at £1.617m. However, COVID-19 is expected to have an adverse impact on the pool with anticipated losses in income from business ratepayers. The Council's external advisors are looking at a range of scenarios which could see the Council ending up with reduced income from its share of business rates by up to £600k for 2020/21.

Collection Fund – Council Tax

- 3.18 At the end of April 2020, council tax receipts were 5.5% down compared to April 2019. If the level of recovery remains at this level throughout 2020/21, this would materialise in to a loss on the collection fund of £3.6m, with EEBC's share of the loss being £375k.
- 3.19 It is difficult at this stage to predict the final position on council tax, as non-payment in April may not necessarily result in non-recovery of the debt for 2020/21. Individual households will be recalculating finances and looking to access other methods of financial support during the early stages of the crisis. This means that the fund could be experiencing a delay in receipts rather than non-payment altogether.
- 3.20 The position on council tax income should become clearer later in the year when the level of risk of non-payment can be reassessed.
- 3.21 The Government has provided hardship funding of £344k; these funds are not for the Council to retain, but are used to assist council tax payers who are experiencing hardship.

4 Recovery of Suspended Services

- 4.1 Any recommencement of services will need to be carried out in accordance with government guidance.
- 4.2 Guidance will affect how services can be delivered - for example, observing social distancing – and the time needed to re-establish a new level of normality.
- 4.3 The Council's recovery is also likely to be impacted by its ongoing responsibilities towards (and protection of) its vulnerable residents in the shielded group.
- 4.4 Any resumption of services is likely to require time to enable public confidence to grow, as residents and customers gradually gain assurance that it is safe to resume using our services.
- 4.5 The Council will need to be sufficiently resourced to deliver its services. Therefore, before any services are resumed, it should be established how the service can be delivered and funded, in light of potential changes required to service delivery.

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5 Available Funding

Government Support

- 5.1 To date the Government has agreed one-off funding specifically for EEBC totalling £820,901.
- 5.2 Government has also provided £11m funding for local businesses through the small business grant schemes, £4k funding for rough sleepers and £344k hardship funding for council taxpayers.
- 5.3 The £11m received for supporting local businesses has been paid to the Council on the basis that these monies are then directly paid out to eligible local businesses in the form of grants, the Council will not retain any surplus allocation or be liable for any shortfall as this will be topped up by Central Government.
- 5.4 The £344k Hardship Funding is being used as set out in the government guidance to provide relief for individual council taxpayers experiencing hardship.

Council's Reserves

- 5.5 The level of usable reserves as included in the provisional final outturn for 2019/20 is £17.9m. This consists of £3.4m general unallocated reserves and £14m held in earmarked strategic reserves which are for specific purposes.
- 5.6 The Council may need to utilise some of the strategic reserves to fund losses arising as a result of the crisis. The most appropriate use of these reserves would be as follows, balances shown are as at 31 March 2020:
- 5.7 Property Income Equalisation Reserve holds a balance of £3.6m and can be used to fund any losses on commercial property rental income
- 5.8 Business Rates Equalisation Reserve holds a balance of £1m and can be used to fund any losses on retained income from business rates and council tax.
- 5.9 Interest Equalisation Reserve holds a balance of £0.4m and can be used to fund any reduced income from treasury management.
- 5.10 Corporate Project Reserve holds a balance of £3.5m and can be used to fund any specific losses or costs resulting from COVID-19 not covered by government funding or the above use of reserves.

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Savings

- 5.11 The Council is currently experiencing losses of over £700k per month, with no clear indication when it will see an end to the impact of COVID-19 on its finances. Therefore, for the Council to remain sustainable it will need to identify alternative savings that can be used to deliver a long-term viable budget.

Possibility of capitalising losses

- 5.12 Nationally, Councils are lobbying the government to provide local authorities with the option of capitalising losses generated from coronavirus. This would allow significant one off losses from suspending activities such as parking to be spread over a significant period and funded by long term borrowing, thereby reducing the immediate impact on Council revenue budgets.

6 Impact on the Council's Reserves in 2020/21

- 6.1 To forecast the impact on the Council's reserves in 2020/21, it is anticipated that there will be three distinct periods to any recovery, and that these periods may last different durations depending on a best, mid or worst case scenario as follows:

Period	Best Case	Mid Case	Worst Case
Lockdown	Apr - Jun	Apr - Aug	Apr - Dec
Unlocking/Recovery	Jul - Sept	Sept - Dec	Jan – Mar
Normality Restored	Oct - Mar	Jan - Mar	2021/2022

- 6.2 During the first period - 'Lockdown' - there is minimal commercial income from services. In the second period, 'Unlocking', commercial income starts to recover but between 20% to 50% down on pre-Covid levels. The final period is 'Normality', when demand for services stabilises at a level that and can be considered the new normal for the foreseeable future. Some services may never fully recover to pre-Covid levels.

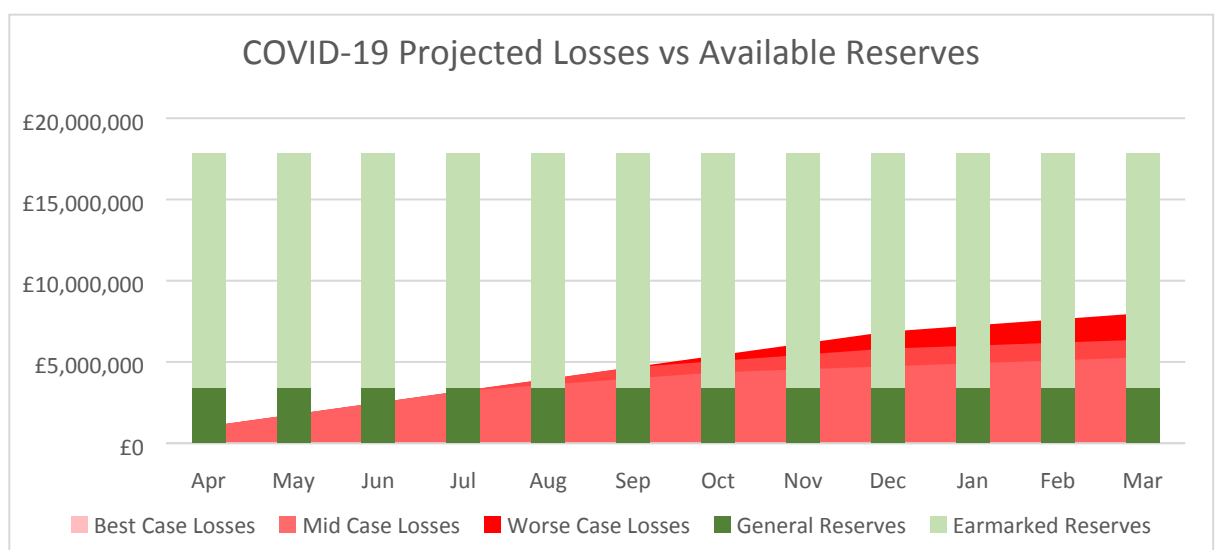
- 6.3 The forecast losses in 2020/21 in each of the three scenarios is set out in the following table:

2020/21 Forecast losses in each scenario	Best Case £'000	Mid Case £'000	Worst Case £'000
Lockdown	2,498	3,954	6,865
Unlocking/Recovery	1,140	1,520	1,140
Normality Restored	1,101	551	
Total Cost / Losses 2020/21	4,739	6,025	8,005

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- 6.4 Based on the forecasts, the Council could be facing losses between £4.7m to £8m, which would require funding by the end of 2020/21.
- 6.5 The Council's useable reserves at nearly £18m could sustain these losses for 2020/21, but they should not be relied on as a medium to long-term solution to fund the deficit in the Council's finances caused by Covid-19. Any strategic reserves used to finance losses will need to be replenished over time, which would require further savings or additional income to be found.
- 6.6 The following chart demonstrates the proportion of the Council's reserves (shown in green) that could be consumed by losses (shown in red) in each of the three scenarios in 2020/21:



- 6.7 Based on the worst case scenario, almost half of the Council's useable reserves would be depleted by the end of the current financial year. Should the worst case scenario subsequently continue throughout 2021/22, it is predicted that useable reserves would be almost fully depleted by the end of next financial year.
- 6.8 The general fund reserve stands at £3.4 million as at the 31 March 2020 and is unlikely to be able to fully fund the crisis for 2020/21, as losses to the Council in each of the three scenarios are around £700k per month, meaning this reserve would be fully utilised by August. As such, funding from alternative strategic reserves and sources has been identified to fund the projected Quarter 1 deficit of **£2.5m**, as follows:
- Use government funding of **£800k** to cover additional expenditure incurred on managing COVID-19, including homelessness and contribute partly to losses on income.
 - Use **£1.1m** from corporate projects reserve to offset losses in income from services in the first quarter

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- Allocate corporate contingencies totalling **£200k** to fund losses.
- Use **£400k** from the property income equalisation reserve to fund potential non-recovery of rental income due on commercial property for the quarter.
- Any losses generated on the collection fund by the end of 2020/21 to be funded from the business rates equalisation reserve.

7 Risk of Section 114 Notice

- 7.1 If the financial impact of coronavirus is felt for a sustained period and without further government financial support, there will be an increased risk of the Council being unable to sustain the situation.
- 7.2 It could then become the statutory responsibility of the Council's Chief Finance Officer to make a report called a section 114 notice, if it appeared that the expenditure of the authority (including expenditure it proposes to incur) were likely to exceed the resources (including sums borrowed) available to meet that expenditure in a financial year. When a section 114 notice is served, all new expenditure is banned, with the exception of expenditure on statutory services such as refuse collection or homelessness to protect vulnerable people.
- 7.3 As the Council's financial reserves are sufficient to fund projected losses in the worst case scenario for the current year, the prospect of a S114 notice is not considered imminent at Epsom & Ewell Borough Council. However, should the worst case scenario persist for a sustained period and the Council is unable to set a balanced budget for 2021/22 taking into account reduced income levels, then the prospect of a S114 notice could come into sharper focus around the time of setting next year's budget.

8 Review of Medium Term Financial Strategy 2020-24 (MTFS) and Services

- 8.1 Once restrictions are lifted and the Council can resume delivery of its services, a review will need to be undertaken of the Council's current Medium Term Financial Strategy. It will need to be updated to reflect the new financial position of the Council, including revisions to future anticipated expenditure and income. The revised MTFS will also have to provide options on how a sustainable and deliverable budget can be achieved over the remaining three years of the plan.
- 8.2 To enable the delivery of sustainable services post-COVID19 it is essential that a review of existing services and service delivery is undertaken. The long-term impact of the crisis on the Council's finances will require some difficult decisions on existing services to deliver viable budgets for the Council for the future.

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9 Impact of Fair Funding Review

- 9.1 The Government has announced that it is delaying its Fair Funding Review, which will not now be implemented for 2021/22. However, it still needs to be clarified if this delay means that the Government will continue to take the same approach on 'negative RSG' for 2021/22 as it has done in previous years, where it has been removed it from the settlement.
- 9.2 The Council's MTFS approved in February anticipated EEBC's share of retained business rates income would reduce by over £700k in 2021/22 as a result of the Fair Funding Review.

10 Risk Assessment

Legal or other duties

10.1 Impact Assessment

10.1.1 The Council will need to undertake individual service risk assessments as it reviews its service delivery and financial plans.

10.1.2 The main risk of inaction is that the Council could become financially unsustainable and ultimately, unable to continue delivering services to residents.

10.2 Crime & Disorder

10.2.1 N/a

10.3 Safeguarding

10.3.1 N/a

10.4 Dependencies

10.4.1 None

10.5 Other

10.5.1 None

11 Financial Implications

- 11.1 Should operational changes affect staffing levels or staff duties, consultation processes would be progressed as appropriate.
- 11.2 All financial implications are included in the body of the report.
- 11.3 **Chief Finance Officer's comments:** The Council is currently facing an unprecedented challenge to its financial stability and sustainability. Long term plans will need to be reviewed in due course, as the Council adapts to new realities and seeks to remain financially sustainable.

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12 Legal Implications

- 12.1 The Council has a statutory responsibility to set a balanced budget each year. The budget must demonstrate how expenditure plans will be funded.
- 12.2 Where this cannot be demonstrated, statutory responsibilities fall on the Chief Finance Officer (Section 151 Officer) to issue a S114 notice; the implications of issuing a S114 notice are set-out in section 7 of the report.
- 12.3 In reviewing service and financial plans, the Council must ensure that it continues to fulfil its statutory obligations and comply with its equalities duties.
- 12.4 **Monitoring Officer's comments:** There are no comments arising from the contents of this report.

13 Policies, Plans & Partnerships

- 13.1 **Council's Key Priorities:** The following Key Priorities are engaged:
 - 13.1.1 The Council's Four Year Plan and Medium Term Financial Strategy 2020-24 (MTFS) were both agreed in early 2020, before the Covid-19 pandemic disrupted the country.
 - 13.1.2 The pandemic's financial impact is expected to have far reaching implications for the Council's Four Year Plan, MTFS, and service delivery.
- 13.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 13.3 **Climate & Environmental Impact of recommendations:** There are no specific particular implications climate and environmental impacts arising out of this report.
- 13.4 **Sustainability Policy & Community Safety Implications:** There are no specific particular implications for Sustainability Policy or Community Safety arising out of this report.
- 13.5 **Partnerships:** Many services are provided by the Council without the direct involvement of other agencies. There is, however, an increasing role for partnership working with others to achieve mutually agreed objectives. The benefits and risks need to be assessed in each specific case to ensure that value for money is secured and the Council's priorities are delivered in the most efficient and effective manner.

14 Background papers

- 14.1 The documents referred to in compiling this report are as follows:

Previous reports:

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- Four Year Plan 2020-2024 agreed at Full Council, 20 Jan 2020
- 2020/21 Budget and Medium Term Financial Strategy 2020-2024 agreed at Full Council, 13 Feb 2020.

Other papers:

- None